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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, OCTOBER 25, 2002

APPLICATION OF

THE FRANKLIN WAVERLY WATER COMPANY

CASE NO. PUE-2001-00590

For a certificate of public
convenience and necessity for
water service

FINAL ORDER

On November 7, 2001, The Franklin Waverly Water Company ("Franklin Waverly" or the "Company") filed an application with the State Corporation Commission ("Commission") for a certificate of public convenience and necessity to provide water service to the subdivision known as Waverly in Franklin County, Virginia.

Franklin Waverly requests approval of the following rates and rules and regulations of service:

1. Service Connections:

- | | |
|--------------------------|--|
| (a) 3/4" Connection | \$1,000 |
| (b) Connection over 3/4" | Actual cost of increased service connection plus 3/4" connection fee |

2. Minimum Charge: \$90 per quarter for first 12,000 gallons used, effective when water service is connected to the lot.

3. Overage Charge: \$3 per 1,000 gallons used over 12,000 per quarter (rounded to nearest 1,000).

The Company renders its bills for service quarterly in arrears.

Franklin Waverly proposes a customer deposit not to exceed the customer's estimated liability for two quarters' usage, with such deposit not to be held beyond a one-year period during which the customer establishes satisfactory credit or after final settlement of the customer's account, whichever is first. The Company proposes a late payment charge of up to one and one half percent (1 1/2%) per month on any customer charges not timely paid. In addition, Franklin Waverly proposes a late charge of \$25 on any payment received by the Company more than 30 days after the due date and a bad check charge of \$25. The Company proposes a turn-on charge of \$60 during regular business hours, or \$120 at any other time, to restore service in the event it has been disconnected for nonpayment of any bill or for violation of the Company's rules and regulations of service. Further, Franklin Waverly proposes a \$120 charge when it is necessary to remove the meter at a customer's premises.

On February 22, 2002, the Commission directed Franklin Waverly to give notice of its application and to provide the public with an opportunity to comment and request a hearing. The Commission also directed the Staff to file a report detailing its findings and recommendations on or before June 24,

2002. The deadline for the Staff Report to be filed was ultimately extended to August 30, 2002.¹

On March 25, 2002, the Company filed proof of notice to all of the customers located in the Waverly subdivision and the County Manager and the Chairman of the Board of Supervisors of Franklin County. No comments or requests for hearing were received.

The Staff Report was filed on August 30, 2002. The Staff recommends that the Commission grant Franklin Waverly a certificate of public convenience and necessity and approve the Company's proposed usage rates and certain of its proposed charges and fees. The Staff makes several recommendations, however, regarding certain other proposed charges and fees, as well as the Company's accounting practices. First, based on the cost for the installation of a meter, the Staff recommends that the Commission approve only a \$165 service fee for a 3/4" connection, rather than the \$1,000 requested. The Staff recommends that Franklin Waverly's deposit requirement equal the customer's estimated bill for two months' usage. Further, the Staff recommends that the Commission not approve a proposed late payment fee of \$25 for any payment received by the Company more than 30 days after the due date.

¹ The Commission issued orders extending the time for filing the Staff Report on June 28, 2002, and August 16, 2002.

Finally, the Staff recommends several accounting changes. Specifically, the Staff recommends that Franklin Waverly:

- (i) record depreciation expense and amortization expense using a three percent (3%) rate in account 403 - Depreciation Expense;
- (ii) capitalize future plant repairs and maintenance according to instructions in the Uniform System of Accounts for Class C Water Utilities;
- (iii) record future service connection fees as Contributions in Aid of Construction in account 271 - Contributions in Aid of Construction;
- (iv) defer and amortize any future expenditures which are significant, such as tank repainting, over a period of time;
- (v) file with the Division of Public Utility Accounting an Annual Financial and Operating Report based on calendar year information by April 1 each year;
- and (vi) record certain journal entries to properly state the Company's books as of December 31, 2001.

On September 24, 2002, Franklin Waverly filed a letter stating that the Company would incorporate the recommendations into the Company's operations and accounting procedure with two exceptions: the two-month deposit and the \$165 service connection fee. The Company states that a deposit of two months' usage does not provide adequate security since it bills quarterly. Franklin Waverly modified its proposed deposit and requests that the deposit approved be the base rate for one quarter. The Company asserts that a \$165 service connection fee

covers the cost of installation only and does not allow the Company to maintain adequate cash reserves or to cover any additional costs that might be incurred, such as repair, relocation, administrative costs, and other unforeseen expenses.

NOW THE COMMISSION, having considered the application, the Staff Report, the Company's response to the Staff Report, and the applicable law, finds that it is in the public interest to grant Franklin Waverly a certificate of public convenience and necessity to provide water service. We will approve the Company's rates, charges, and rules, as modified by the Staff, with one exception.

In Commonwealth of Virginia, ex rel. State Corporation Commission, Ex Parte, in re: Investigation to determine the reasonableness of certain practices and charges by public utilities, Case No. 19589, 1977 S.C.C. Ann. Rept. 124, 133, the Commission determined that a utility may require a customer deposit to protect against uncollectable accounts, and that the maximum amount of any deposit may not exceed the equivalent of the customer's estimated liability for two months' usage. Franklin Waverly, however, bills quarterly in arrears. A deposit in the amount of two months' usage would not ensure adequate security for an outstanding bill for one quarter, a minimum charge of \$90.00, and protect against uncollectable accounts. We therefore find it reasonable for the Company to

require a deposit in the amount of the base rate for one quarter's usage and will approve the Company's proposed deposit of one quarter's usage, or \$90.00.

We will not approve Franklin Waverly's request to charge \$1,000 for a service connection fee. The Commission has previously declared that service connection fees may not be used for ordinary operating expenses. In Application of Lake Monticello Service Company, To revise its tariffs, Case No. PUE-1982-00054, 1983 S.C.C. Ann. Rept. 371, 376, the Hearing Examiner stated in his Report that "it is clearly the function of monthly usage fees to cover the expenses of the daily operations of the [c]ompany."² A one-time fee, paid for the purpose of service connection, is not the type of charge intended to fund daily operations. We will require the Company to base its service connection fees on the average cost of providing the connection, or \$165.00. Should Franklin Waverly determine that it can not cover its operating costs, the Company may seek rate relief from the Commission.

Accordingly, IT IS THEREFORE ORDERED THAT:

(1) Franklin Waverly is hereby granted Certificate No. W-303 to provide water service to the Waverly subdivision of Franklin County, Virginia.

² The Commission adopted the findings of the Hearing Examiner in Application of Lake Monticello Service Company, To revise its tariffs, Case No. PUE-1982-00054, 1983 S.C.C. Ann. Rept. 383, 385.

(2) Franklin Waverly's rates are hereby approved.

Specifically, the Commission authorizes the Company to charge \$90 per quarter for the first 12,000 gallons used and \$3 per 1,000 gallons used over 12,000 per quarter.

(3) Franklin Waverly's proposed charges, rules, and regulations, as modified herein, are hereby approved.

(4) On or before November 27, 2002, Franklin Waverly shall file with the Commission's Division of Energy Regulation a revised tariff incorporating the changes in its rules and regulations of service as adopted herein.

(5) The Company shall implement Staff's accounting and booking recommendations as detailed herein.

(6) This case is hereby dismissed from the Commission's docket of active cases.